



Fiscal Year 2015-2019 Five-Year Financial Outlook

November 21, 2013



Overview

- Framework for development of the Fiscal Year 2015 Adopted Budget
- Expanded to incorporate a greater range of information to facilitate an informed discussion regarding the City's needs over the next five years
- Mayor will present a balanced budget in April for City Council's consideration



Overview

- The Outlook has been reformatted from prior years into four distinct sections:
 - Baseline Budget
 - Mandates
 - Critical Operational Needs
 - Reserves



Overview

- In preparation for the Outlook, City departments submitted \$750 million in needs over the next five years
- Following review by the Interim Mayor and Executive Team, these needs were categorized into the following categories:
 - Federal, State, City Mandates
 - Critical Operational Needs
 - Discretionary Operational Needs



Baseline Budget

(\$ in millions)

Projected Surplus/(Deficit) (in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Baseline Budget Surplus/(Deficit)	\$ (19.1)	\$ 13.1	\$ 47.2	\$ 73.0	\$ 104.0

- Projections of ongoing revenues and expenditures that continue current service levels
- FY 2014 Adopted Budget with one-time revenues and expenses excluded
- The Baseline Budget of the Outlook projects a deficit in FY 2015 with surpluses in FY 2016 and beyond



Baseline Revenue Categories

(\$ in millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Property Taxes	\$ 424.1	\$ 439.2	\$ 452.7	\$ 466.5	\$ 480.7
Sales Taxes	\$ 255.6	\$ 265.3	\$ 274.7	\$ 283.8	\$ 293.2
Transient Occupancy Taxes (TOT)	\$ 92.4	\$ 97.0	\$ 108.5	\$ 113.6	\$ 118.9
Franchise Fees	\$ 70.3	\$ 72.3	\$ 74.2	\$ 76.2	\$ 78.2
Other Baseline Revenues	\$ 373.8	\$ 388.3	\$ 404.0	\$ 416.5	\$ 429.4
Total Baseline Revenues	\$ 1,216.2	\$ 1,262.1	\$ 1,314.0	\$ 1,356.6	\$ 1,400.4

- Overall, revenues are projected to increase through the Outlook period
- Property Tax, Sales Tax, TOT, and Franchise Fees make up nearly 70% of General Fund revenues
- Other Baseline Revenue projections are adjusted based on historical averages and known and anticipated events



Property Tax

(\$ in millions)

	FY 2014 Adopted	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Growth Rate	2.2%	3.5%	3.5%	3.0%	3.0%	3.0%
Projection	\$ 408.0	\$ 424.1	\$ 439.2	\$ 452.7	\$ 466.5	\$ 480.7

- Major drivers include California Consumer Price Index (CPI), home sales, home price, and foreclosures
- Base for Property Tax projections is FY 2013 actual receipts, consistent with FY 2014 First Quarter Budget Monitoring Report
- Risk – Increases in mortgage rates increase cost of home ownership which may slow home sales



Sales Tax

(\$ in millions)

	FY 2014 Adopted	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Growth Rate	5.5%	4.5%	4.0%	3.5%	3.5%	3.5%
Projection	\$ 248.1	\$ 255.6	\$ 265.3	\$ 274.7	\$ 283.8	\$ 293.2

- Major drivers include unemployment rates and consumer confidence
- Projection includes \$0.8 million in additional sales tax from the proposed expansion of the San Diego Convention Center
- Risk – Continued high unemployment and defense spending declines as a result of sequestration which began March 2013



Transient Occupancy Tax (TOT)

(\$ in millions)

	FY 2014 Adopted	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Growth Rate	6.0%	5.5%	5.0%	5.0%	5.0%	5.0%
Projection	\$ 87.9	\$ 92.4	\$ 97.0	\$ 108.5	\$ 113.6	\$ 118.9

- Major drivers include seasonal and non-seasonal tourism, business travel, and conventions
- Projection includes \$12.7 million in additional TOT from the proposed expansion of the San Diego Convention Center
- Risk – Decreased marketing campaigns due to delays in the release of Tourism Marketing District (TMD) funds



Franchise Fees

(\$ in millions)

	FY 2014 Adopted	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
SDG&E Growth Rate	2.0%	2.0%	3.0%	2.5%	2.5%	2.5%
Cable Growth Rate	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%
Projection	\$ 68.4	\$ 70.3	\$ 72.3	\$ 74.2	\$ 76.2	\$ 78.2

- Generated from agreements with SDG&E, cable providers, and refuse haulers in exchange for use of the City's rights-of-way
- SDG&E - U.S. Energy Information Administration projects natural gas and electricity prices to increase
- Cable – Based on historical averages and increased demand for internet and telephone services
- Risks – Decreases in energy prices and demand for cable services



Other Baseline Revenue Categories

- Other revenue categories within the Baseline Budget include:
 - Property Transfer Tax
 - Licenses and Permits
 - Fines, Forfeitures, and Penalties
 - Revenue from Money and Property
 - Revenue from Federal/Agencies
 - Charges for Services
 - Other Revenue
 - Transfers In
- Conservative growth projected in most categories based on a 10 year analysis of historical averages
- Additional adjustments based on known and anticipated events

Baseline Expenditure Categories

(\$ in millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Salaries and Wages	\$ 515.5	\$ 515.6	\$ 515.4	\$ 516.2	\$ 515.7
Five-Year Employee Organization Agreements	\$ 7.3	\$ 16.7	\$ 18.5	\$ 20.2	\$ 20.2
Retirement ARC	\$ 208.0	\$ 211.9	\$ 215.4	\$ 218.6	\$ 221.7
Other Fringe Benefits	\$ 160.1	\$ 162.0	\$ 163.0	\$ 165.0	\$ 167.1
Personnel Expenditures	\$ 890.9	\$ 906.2	\$ 912.3	\$ 920.0	\$ 924.7
Non-Personnel Expenditures	\$ 344.4	\$ 342.8	\$ 354.6	\$ 363.5	\$ 371.8
Total Baseline Expenditures	\$ 1,235.3	\$ 1,249.0	\$ 1,266.9	\$ 1,283.6	\$ 1,296.5

- Includes ongoing personnel and non-personnel expenditure categories
- Personnel expenditures include Five-Year Employee Organization Agreements and Retirement Annual Required Contribution (ARC)
- Increases projected in nearly all expenditure categories

Salaries and Wages

(\$ in millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Salaries	\$ 515.5	\$ 515.6	\$ 515.4	\$ 516.2	\$ 515.7
Five-Year Employee Organization Agreements	\$ 7.3	\$ 16.7	\$ 18.5	\$ 20.2	\$ 20.2

- Salaries include projected step increases and salary annual leave payouts (DROP)
- Non-pensionable compensation increases projected based on Five-Year Employee Organization Agreements
- Agreements contain clauses to reopen meet and confer for FY 2017 and FY 2018; as a result, no additional increases projected for FY 2019



Retirement ARC

(\$ in millions)

Retirement ARC	FY 2014 Adopted	FY14 GF % of Total ARC	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Retirement ARC Projection	\$ 212.7	77.2%	\$ 208.0	\$ 211.9	\$ 215.4	\$ 218.6	\$ 221.7
Citywide ARC Projection	\$ 275.4		\$ 269.3	\$ 274.4	\$ 278.9	\$ 283.0	\$ 287.1

- Retirement ARC projection based on SDCERS actuarial report prepared by Cheiron as of June 30, 2012
- On November 8th, SDCERS Board approved a reduction in the annual discount rate from 7.50% to 7.25%
- The net impact of the discount rate reduction, employee pay freeze, and inflation is an estimated decrease of \$12.0 million to the ARC



Non-Personnel Expenditures

- Non-personnel expenditure categories within the Baseline Budget include:
 - Supplies
 - Contracts
 - Information Technology
 - Energy and Utilities
 - Other Expenditures
- Growth projected in most categories based on a 10 year analysis of historical averages
- Additional adjustments based on known and anticipated events



Potential Impacts to Baseline

- Items not included in Baseline revenue projections:
 - RedevelopmentPropertyTax Trust Fund (RPTTF) residual distributions
 - Sales Tax 'Triple-Flip'
- Items not included in Baseline expenditure projections:
 - Managed Competition savings in addition to FY 2014 Adopted Budget
 - Additional lease savings beyond 525 B Street
 - Refinancing of Equipment Vehicle Financing Program (EVFP) leases
 - Maintenance Assessment Districts (MAD) pending lawsuit



Mandates

(\$ in millions)

Projected Surplus/(Deficit) (in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Baseline Budget Surplus/(Deficit)	\$ (19.1)	\$ 13.1	\$ 47.2	\$ 73.0	\$ 104.0
Mandated Revenue Adjustments	\$ (2.5)	\$ (4.3)	\$ (6.4)	\$ (7.5)	\$ (9.3)
Mandated Expenditure Adjustments	\$ 40.5	\$ 64.6	\$ 81.8	\$ 99.0	\$ 104.9
Net Impact of Mandates	\$ 43.0	\$ 68.9	\$ 88.1	\$ 106.4	\$ 114.1
Mandates Surplus/(Deficit)	\$ (62.1)	\$ (55.8)	\$ (41.0)	\$ (33.4)	\$ (10.1)

- Federal, State, and City Mandates include programs and projects that are a result of legislation enacted by the federal and/or State government
- Or previously approved by the Mayor and City Council



Sample of Mandates

- Storm Water – Comprehensive Load Reduction Plan (CLRP) and Flood Risk Management
- Deferred Capital – Debt Service, Maintenance and Repair, and Capital Expenditures
- Police Department – Five-Year Plan
- Fire-Rescue Department – New Stations
- Library Department – Branch Library Expansions
- Penny for the Arts



Critical Operational Needs

Projected Surplus/(Deficit) (in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Baseline Budget Surplus/(Deficit)	\$ (19.1)	\$ 13.1	\$ 47.2	\$ 73.0	\$ 104.0
Mandates Surplus/(Deficit)	\$ (62.1)	\$ (55.8)	\$ (41.0)	\$ (33.4)	\$ (10.1)
Critical Operational Needs Revenue	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ (2.0)
Critical Operational Needs Expenditures	\$ 15.8	\$ 11.0	\$ 10.4	\$ 10.7	\$ 7.0
Net Critical Operational Needs	\$ 15.8	\$ 11.0	\$ 10.4	\$ 10.7	\$ 9.0
Critical Operational Needs Surplus/(Deficit)	\$ (78.0)	\$ (66.8)	\$ (51.4)	\$ (44.1)	\$ (19.1)

- Critical programs and projects identified by departments to maintain current service levels or provide minor service level enhancements
- Historically under funded or funded through grants; Outlook identifies sufficient funding required for implementation



Sample of Critical Operational Needs

- Fire-Rescue Department
 - Equipment Replacement Needs
- Library Department
 - Additional Central and Branch Library Hours
- Lifeguard Division
 - Advanced Lifeguard Academy and Five-Year Needs Assessment
- Park and Recreation
 - New Facilities opening in FY 2015
- Police Department
 - Animal Services Contract and Air Support



Reserves

- General Fund Reserves – currently well above Reserve Policy target of 8.0% of revenues
- Outlook includes a ‘status quo’ scenario for the General Fund Reserves
- Outlook includes contributions to the Long Term Disability, Public Liability, and Workers’ Compensation Funds based on the Reserve Policy
- Updated Reserve Policy in the next several months



Conclusion

- Outlook is expanded to ensure City Council and public has sufficient information for development of the FY 2015 Adopted Budget
- Projected FY 2015 Baseline deficit significantly reduced from previous years
- Mayor will present Balanced budget in April 2014 for City Council consideration



Fiscal Year 2015-2019 Five-Year Financial Outlook

Questions?